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3 June 1983

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MEMORANDUM FOR: Dr. William Helkie
International Division
Board of Governors of the Federal Reserve

FROM : [redacted] 25X1
European Issues Division
Office of European Analysis

SUBJECT : OECD-LDC Economic Linkages

1. In response to your request of 2 June 1983, the Linked Policy Impact Model was simulated to assess the impact of varying assumptions about OECD economic growth on the LDC trade position.

2. The simulations indicate that a one percentage point increase in the OECD GNP growth rate (from 2.3 percent in 1983 and 3.4 percent in 1984 to 3.3 and 4.4 percent) causes an increase in non-OPEC LDC goods export volume of 1.1 percent in 1983, and 2.5 percent in 1984, worth an additional $5 billion in 1983 and $14 billion in 1984. The increase in OECD GNP boosts LDC export volume to the OECD, and it boosts slightly the price of LDC exports relative to the price of LDC imports.

3. The model estimates that the boost in LDC export volume and the improvement in LDC terms of trade boosts real non-OPEC LDC GNP by 0.7 percent by 1984, compared to the baseline projection. With this higher level of GNP, LDC import demand rises by $11 billion by 1984, thus wiping out much of the gain in the current account position of the non-OPEC LDCs as a group. Unless steps are taken to cut import growth from following established patterns, the non-OPEC current account balance improves by only $1 billion in 1983 and $3 billion in 1984 as a result of the increase in OECD GNP.

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